Responses to Survey of Primary Dealers

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Responses to the Primary Dealer Policy Expectations Survey
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For most questions, median responses across dealers, along with the 25th and 75th percentiles, are reported. For questions that ask respondents to give a probability distribution, the average response across dealers for each potential outcome is reported.[1] For multiple choice questions, the number of responses for each option is reported. Brief summaries of the comments received in free response form have also been provided.

Except where noted, all primary dealers responded to each question. In some cases, dealers may not have forecasts extending to the same time horizon as requested in the survey. In these instances, the number of respondents who fully answered all parts of the question is provided.

Monetary Policy Expectations

1. Do you expect any changes in the FOMC statement and, if so, what changes?

Some dealers noted that they did not expect any significant changes to the May FOMC statement. Regarding the changes dealers did expect, many saw the FOMC acknowledging recent weaker economic data, with several referencing the softer inflation and labor market data.

2. Of the possible outcomes below, please indicate the percent chance you attach to the timing of the first federal funds target rate increase.

	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	≥ H2 2017
Average	0%	1%	4%	10%	25%	26%	18%	8%	4%	4%

	Most likely quarter and year of first target rate increase:
25th Pctl	Q2 2015
Median	Q3 2015
75th Pctl	Q3 2015

3. a) Provide your firm's estimate of the most likely outcome (i.e., the mode) for the federal funds target rate or range at the end of each half-year period and over the longer run:

	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017	Longer Run
25th Pctl	0-.25%	0-.25%	0-.25%	0-.25%	0-.25%	0.50%	1.00%	1.50%	2.00%	2.50%	3.75%
Median	0-.25%	0-.25%	0-.25%	0-.25%	0-.25%	0.75%	1.50%	2.00%	3.00%	3.00%	4.00%
75th Pctl	0-.25%	0-.25%	0-.25%	0-.25%	0.50%	1.00%	2.00%	2.50%	3.25%	4.00%	4.00%

b) Provide your firm's estimate of the most likely outcome (i.e., the mode) for the 10-year Treasury yield at the end of each half-year period:

	H1 2013	H2 2013	H1 2014	H2 2014	H1 2015	H2 2015
25th Pctl	1.75%	2.00%	2.30%	2.54%	3.00%	3.28%
Median	1.88%	2.25%	2.50%	2.78%	3.10%	3.50%
75th Pctl	2.00%	2.40%	2.80%	3.14%	3.50%	3.93%

[1] Answers may not sum to 100 percent due to rounding.

c) **Provide your firm's estimate of the most likely outcome (i.e., the mode) for the 30-year fixed primary mortgage rate at the end of each half-year period. For reference, the current 30-year fixed primary rate according to the Freddie Mac survey is 3.41 percent.**

	H1 2013	**H2 2013**	**H1 2014**	**H2 2014**	**H1 2015**	**H2 2015**
25th Pctl	3.40%	3.69%	3.84%	4.15%	4.33%	4.56%
Median	3.50%	3.75%	4.00%	4.30%	4.55%	5.00%
75th Pctl	3.59%	3.86%	4.23%	4.50%	5.00%	5.44%

4. **Of the possible outcomes below, please indicate the percent chance you attach to the federal funds target rate or range at the end of 2013, 2014, and 2015.**

	0.00 - 0.25%	**0.26 - 0.50%**	**0.51 - 1.00%**	**1.01 - 1.50%**	**1.51 - 2.00%**	**2.01 - 2.50%**	**≥ 2.51%**
Year-end 2013 :	98%	2%	0%	0%	0%	0%	0%
Year-end 2014 :	84%	10%	5%	1%	0%	0%	0%
Year-end 2015 :	30%	24%	20%	13%	9%	3%	1%

5. **How would you grade the Federal Reserve System's communication with the markets and with the public since the last policy survey on 3/11/13? Please provide a rating between 1 and 5, with 1 indicating ineffectiveness and 5 indicating effectiveness.**

	Fed Communication Grade Number of Respondents:
1 - Very Ineffective	0
2	4
3	10
4	6
5 - Very Effective	1

Some dealers noted that the dispersion of views expressed by FOMC participants as to how the FOMC would make decisions regarding the future pace of asset purchases has decreased clarity around the program. Of these dealers, several suggested that the differing views on monetary policy may reduce the policy's effectiveness. Several dealers would like more guidance regarding the economic conditions that would lead to an end of asset purchases. In contrast, several others saw speeches by Federal Reserve officials, as well as the March minutes, statement, and press conference, as clear and useful.

6. **In the March FOMC statement, the Committee announced it will continue purchasing additional agency mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month, and also stated that it would take appropriate account of the likely efficacy and costs of such purchases as well as the extent of progress toward its economic objectives in determining the size, pace, and composition of its asset purchases.**

   a) **Please provide your expectation for the monthly pace of purchases that will be in effect after each of the below FOMC meetings.**

Monthly Pace of Longer-Term Security Purchases ($Billions)

		Treasuries	Agency MBS
April/May 30-1:	25th Pctl	45	40
	Median	45	40
	75th Pctl	45	40
June 18-19:	25th Pctl	45	40
	Median	45	40
	75th Pctl	45	40
July 30-31:	25th Pctl	45	40
	Median	45	40
	75th Pctl	45	40
December 17-18:	25th Pctl	25	30
	Median	45	40
	75th Pctl	45	40
1 Year ahead (April 29-30, 2014):	25th Pctl	0	0
	Median	0	0
	75th Pctl	25	25

b) Please indicate the quarter and year during which you expect asset purchases in Treasury and agency MBS securities to be completed. Please explain, including your views on any difference in the end dates of Treasury and agency MBS purchases, if applicable:

	Most likely quarter and year Treasury purchases end:		Most likely quarter and year agency MBS purchases end:
25th Pctl	Q1 2014	25th Pctl	Q4 2013
Median	Q2 2014	Median	Q2 2014
75th Pctl	Q2 2014	75th Pctl	Q2 2014

Many dealers stated that they believed the FOMC would at some point decrease the pace of asset purchases, with several noting that they saw a decrease in the pace of MBS and Treasury securities purchases commencing at the same time. Some dealers noted that they expect both Treasury and MBS purchases to end at the same time, while several other dealers mentioned that MBS and Treasury purchases may end at different dates.

c) Assuming that the economy progresses according to the scenario you judge most likely, and your expectations for the timing of the end of asset purchases in Part B are realized, please address the following:

***At that future point*, what is your best estimate for the realized values of the following economic indicators? If you project Treasury and agency MBS purchases to end at different times, please provide estimates as of the later of the two dates. For reference, as of 3/31/13 the level of total U.S. employees on nonfarm payrolls, seasonally adjusted, was 135.2 million.**

	Expected Level of Non-farm Payrolls at the End of Asset Purchases (mn):	Expected Unemployment Rate at the End of Asset Purchases	Expected y/y Change in PCE Deflator at the End of Asset Purchases
25th Pctl	137.28	6.9%	1.5%
Median	137.70	7.1%	1.8%
75th Pctl	138.00	7.2%	1.9%

***At that future point*, what is your best estimate for your projection of the path for the following economic indicators (please ensure your signs are correct)? If Treasury and agency MBS purchases end at different times, please project from the later of the two.**

	Expected Average Monthly Non-farm Payroll Change for the Year Following the End of Asset Purchases:	Expected Change in the Unemployment Rate in the Year Following the End of Asset Purchases (percentage points)	Expected y/y Change in PCE Deflator One Year Following the End of Asset Purchases
25th Pctl	182,250	-0.50	1.8%
Median	203,000	-0.60	1.9%
75th Pctl	223,500	-0.63	2.1%

7. a) In the prepared remarks of his March 20th post-FOMC press conference, Chairman Bernanke stated that with regard to the FOMC's asset purchase program, "The Committee could vary the pace of purchases as progress is made toward its economic objectives or if its assessment of the efficacy and costs of the program changes." Given the factors cited in the Chairman's prepared remarks, please rate them according to your view of their importance in influencing a change in the pace of purchases prior to the conclusion of the program. If you expect multiple changes in pace, please rate the importance of factors in reference to the first change only. If you do not expect a change in pace before the conclusion of the program, please choose "No Pace Change". (5 = very important, 1 = not important)

Factors Influencing a Change in Pace of Treasury Purchases

	1 - not important	2	3	4	5 - very important
Economic Objectives	0	0	0	0	21
Efficacy	1	8	6	4	2
Costs	3	8	5	3	2

Factors Influencing a Change in Pace of Agency MBS Purchases

	1 - not important	2	3	4	5 - very important
Economic Objectives	0	0	1	1	19
Efficacy	2	8	6	3	2
Costs	2	7	5	5	2

b) Please comment further on the factor you thought was most important in influencing a change in the pace of Treasury and/or agency MBS purchases from Part A. In the event that you rated two or more choices equally for either Treasuries or agency MBS, please elaborate on what you view as the one most likely factor to influence a change in the pace of purchases for each security:

If you believe progress toward *economic objectives/efficacy of purchases/costs of purchases* will be the most important factor, please explain what specific economic conditions would warrant a change in the pace of Treasury and/or agency MBS purchases. To the extent possible, please include specific indicators and levels that you would consider important.

Some dealers noted that payroll gains of roughly 200,000, on average, for a time ranging from 4 to 6 months would be one indicator warranting a change in the pace of securities purchases. Several dealers mentioned a decline in the unemployment rate towards 7 percent, provided that a lower employment-to-population ratio or labor force participation rate is not the driver of the decline. Stronger projected or realized GDP growth in the range of around 2.5 to 3 percent or higher for consecutive quarters was also noted by several dealers as an indicator.

8. **Please provide your expectation for the change in the amount of domestic securities held in the SOMA portfolio during each of the periods below. In the case of purchases, please include settled and unsettled amounts.**[2]

		2013 Q3	2013 Q4	2014 H1	2014 H2	2015 H1	2015 H2	2016 CY*	2017 CY*	2018 CY*
		$Billions								
Change in the estimated amount of Treasuries:	25th Pctl portfolio	135	90	45	0	0	-5	-210	-195	-256
	Median portfolio	135	135	90	0	0	-20	-190	-216	-229
	75th Pctl portfolio	135	135	180	15	0	0	-185	-139	-286
Change in the estimated amount of agency debt and MBS:	25th Pctl portfolio	120	105	15	0	-60	-140	-325	-275	-224
	Median portfolio	120	120	120	-60	-5	-85	-200	-180	-150
	75th Pctl portfolio	120	120	180	25	0	-85	-190	-110	-134

**Calendar Year*

Please explain any assumptions underlying changes in the pace and/or composition of asset purchases.

Most dealers provided additional detail regarding their forecasts. Most dealers stated that they expected a slowing in the pace of purchases to occur, and several saw it occurring in 2013. In contrast, some dealers stated the FOMC would maintain the current pace of purchases through the end of this year. A subset of this group projected a slowing of the pace of purchases in 2014. Regarding the end of purchases, several dealers stated that purchases would end in the first half of 2014, and several others stated the second half of 2014.

Please explain any assumptions underlying any declines in SOMA portfolio levels.

All dealers provided additional detail regarding their forecasts. Some dealers stated that they only project the portfolio to decline by the passive redemption of maturing securities holdings during the given time period, while several others stated that they expected the portfolio to decline through both active asset sales and passive redemptions. Some dealers noted that they see the size of the SOMA portfolio beginning to decline in 2015, with several mentioning that the decline in 2015 would be due to the redemption or sales of MBS securities. Several dealers stated that they expect the Treasury portfolio to decline due to redemptions starting in 2016.

9. **The March FOMC meeting minutes stated that, "Another exit-related concern was a possible adverse effect on market functioning from MBS sales during the normalization of the Federal Reserve's balance sheet."**

   a) **Please indicate the percent chance you assign to outright sales of agency MBS from the SOMA portfolio, at any time, in the context of balance sheet normalization.**

	Percent Chance of MBS Sales
25th Pctl	10%
Median	35%
75th Pctl	45%

   b) **If you see any possibility of sales of agency MBS taking place in the context of balance sheet normalization, please provide your most likely estimate of the quarter and year during which sales would begin. Please explain.**

[2] Respondents provided their expected change in the SOMA portfolio of Treasuries and agency debt and MBS at each time horizon. The above data is constructed by creating a portfolio level for each respondent at each time horizon based upon their responses. The 25th percentile, median, and 75th percentile portfolio level are then sampled at each time horizon. The above data represent the changes in these portfolios at each time horizon.

	Most likely quarter and year agency MBS sales begin:
25th Pctl	Q1 2016
Median	Q3 2016
75th Pctl	Q1 2017

Several dealers stated that they either did not expect sales, or placed a low probability on sales occurring during the normalization of the Federal Reserve's balance sheet.

10. Of the possible outcomes below, please indicate the percent chance you attach to the SOMA portfolio level falling in each of the following ranges at year-end 2013 and year-end 2014. For your reference, the level of the SOMA portfolio including inflation accretion and settled and unsettled agency MBS according to the January 3 H.4.1 was $2,785 billion (the H.4.1 closest to the start of 2013).

	Year End 2013						
	<3000	**3000-3250**	**3250-3500**	**3500-3750**	**3750-4000**	**4000-4250**	**>4250**
Average	0%	2%	10%	35%	45%	7%	1%

	Year End 2014						
	<2500	**2500-3000**	**3000-3500**	**3500-4000**	**4000-4500**	**4500-5000**	**>5000**
Average	0%	1%	12%	42%	30%	12%	2%

11. Provide your firm's estimate of the most likely outcome (i.e., the mode) for output, inflation, and unemployment. Are the risks to output, inflation and unemployment skewed to the downside, balanced, or skewed to the upside relative to your forecast? Please comment on any risks you see to your forecast.

(15 complete primary dealer responses)

		Q4/Q4 2013	Q4/Q4 2014	Q4/Q4 2015	Long Run
	25th Pctl	2.10%	2.60%	2.80%	2.25%
GDP:	Median	2.40%	2.80%	3.00%	2.35%
	75th Pctl	2.60%	3.10%	3.30%	2.50%
	25th Pctl	1.40%	1.70%	1.78%	
Core PCE:	Median	1.60%	1.90%	1.90%	
	75th Pctl	1.80%	2.10%	2.00%	
	25th Pctl	1.40%	1.60%	1.95%	2.00%
Headline PCE:	Median	1.60%	1.90%	2.00%	2.00%
	75th Pctl	1.80%	2.00%	2.00%	2.20%
	25th Pctl	7.30%	6.70%	6.23%	5.90%
Unemployment Rate*:	Median	7.40%	6.85%	6.30%	6.00%
	75th Pctl	7.50%	6.90%	6.50%	6.28%

**Average level over Q4 in the case of the unemployment rate.*

2013 Forecasts*

Number of Respondents Citing:

	Downside Risk	Balanced Risk	Upside Risk
GDP:	6	15	0
Core PCE:	7	14	0
Headline PCE:	7	14	0
Unemployment Rate:	2	12	7

2014 Forecasts*

Number of Respondents Citing:

	Downside Risk	Balanced Risk	Upside Risk
GDP:	3	16	2
Core PCE:	4	14	3
Headline PCE:	3	15	3
Unemployment Rate:	3	12	6

2015 Forecasts*

Number of Respondents Citing:

	Downside Risk	Balanced Risk	Upside Risk
GDP:	3	10	2
Core PCE:	0	11	4
Headline PCE:	0	11	4
Unemployment Rate:	3	12	0

**Upside risk is a risk towards higher GDP growth, a higher inflation rate, and a lower unemployment rate. Downside risk is a risk towards lower GDP growth, a lower inflation rate, and a higher unemployment rate.*

(18 primary dealer comments)

Some dealers noted fiscal drag as a downside risk to their economic forecasts. Several dealers saw the pace of global, European, and Asian economic growth as potential downside risks. Several dealers noted the risk that inflation may decline more than they expect. Regarding the unemployment rate, several dealers believed that unemployment may fall more than they anticipate due to a continued decline in the labor force participation rate. Concerning upside risks, several dealers mentioned a stronger-than-expected housing recovery.

12. For the outcomes below, please indicate the percent chance you attach to the annual average CPI inflation rate from 2018 - 2023. Please also indicate your point estimate for the most likely outcome (i.e., the mode).

	≤1.0%	1.01-1.5%	1.51-2.0%	2.01-2.5%	2.51-3.0%	≥3.01%
Average	3%	11%	23%	31%	20%	11%

	Point Estimate
25th Pctl	2.00%
Median	2.25%
75th Pctl	2.50%

13. a and b) What percent chance do you attach to the US economy currently being in a recession (NBER-defined)? What percent chance would you attach to the US economy being in a recession in 6 months (NBER-defined)?

	Currently in NBER Recession
25th Pctl	4%
Median	5%
75th Pctl	10%

	NBER Recession in 6 Months
25th Pctl	10%
Median	20%
75th Pctl	25%

14. The 10-year Treasury yield has declined by approximately 25 basis points since the release of the March FOMC statement. Please rate the importance of the factors below in explaining this decline. (5 = very important, 1 = not important)

Factors Influencing the Decline in the 10-year Treasury Yield

	1 - not important	2	3	4	5 - very important
Weaker Growth	0	0	4	6	11
Lower Inflation	0	7	10	3	1
Safe Haven Flows	3	8	5	3	2
Global Portfolio Rebalancing	2	5	7	6	1
Change in Asset Purchase Expectations	5	4	5	6	1
Other	1	0	0	1	0

(18 primary dealer comments)

Many dealers noted recently weaker U.S. data as a driver of the decline in the 10-year Treasury yield over the given period. Some dealers stated that the weak data led to a shift in expectations for Federal Reserve asset purchases by either pushing out expectations for the end date of purchases, or paring back expectations for a slowing in the pace of purchases. Some dealers attributed the decline in Treasury yields to an anticipation of global portfolio rebalancing *resulting from the Bank of Japan's recently-announced accommodative monetary policy measures. Several dealers noted safe haven flows, and several noted lower inflation as also influencing the decline.*

15. Please comment on any changes to your macroeconomic assessments since the last FOMC meeting.

(20 primary dealer comments)

Some dealers stated that they had no material changes to their macroeconomic forecasts. Several dealers revised higher their expectations for Q1 2013 GDP growth. Several dealers noted that upcoming fiscal drag poses risks to their economic projections. Several dealers marked down their inflation expectation, with the majority of those citing declines in energy prices.